

§ 359.12 What happens in deflationary conditions?

In certain deflationary situations, the semiannual inflation rate may be negative. Negative semiannual inflation rates will be used in the same way as positive semiannual inflation rates. However, if the semiannual inflation rate is negative to the extent that it completely offsets the fixed rate of return, the redemption value of a Series I bond for any particular month will not be less than the value for the preceding month.

§ 359.13 What are composite rates?

Composite rates are single, annual interest rates that reflect the combined effects of the fixed rate and the semiannual inflation rate.

§ 359.14 How are composite rates determined?

Composite rates are set according to the following formula (See Appendix A to part 359 for examples of calculations involving composite interest rates.):

$$\text{Composite rate} = \{(\text{Fixed rate} \div 2) + \text{Semiannual inflation rate} + [\text{Semiannual inflation rate} \times (\text{Fixed rate} \div 2)]\} \times 2.^2$$

§ 359.15 When is the composite rate applied to Series I savings bonds?

The most recently announced composite rate applies to a bond during its next semiannual rate period. A bond's semiannual rate periods are consecutive six-month periods, the first of which begins with the bond's issue date. This means that there can be a delay of several months from the time of a composite rate announcement to the time that rate determines interest earnings for a bond. For example, if you purchased a bond in April, its semiannual rate periods begin every

April and October. At the beginning of the semiannual rate period in April, the most recently announced composite rate would have been the rate we announced the previous November. This rate will determine interest earnings for your bond for the next six months, through the end of September. At the beginning of the semiannual rate period in October, the most recently announced composite rate would be the rate announced the previous May. This rate will determine interest earnings for your bond through the end of the following March. However, if you purchased a bond instead in May, its semiannual rate periods begin in May and November. Therefore, the composite rates announced in May and November will apply immediately to this bond. (See Appendix C to part 359 at § 2 for a discussion of rate lag.)

§ 359.16 When does interest accrue on Series I savings bonds?

(a) Interest, if any, accrues on the first day of each month; that is, we add the interest earned on a bond during any given month to its value at the beginning of the following month.

(b) The accrued interest compounds semiannually.

§ 359.17 When is interest payable on Series I savings bonds?

Interest earnings are payable upon redemption.

§ 359.18 Is the determination of the Secretary on rates and values final?

The Secretary's determination of fixed rates of return, semiannual inflation rates, composite rates, and savings bonds redemption values is final and conclusive.

§ 359.19 How is interest calculated?

We base all calculations of interest on a \$25 unit. We use the value of this unit to determine the value of bonds in higher denominations. The effect of rounding off the value of the \$25 unit increases at higher denominations. This can work to your slight advantage

²Example for I bonds issued May 2002–October 2002:

Fixed rate = 2.00%
 Inflation rate = 0.28%
 $\text{Composite rate} = [0.0200 \div 2 + 0.0028 + (0.0028 \times 0.0200 \div 2)] \times 2$
 $\text{Composite rate} = [0.0100 + 0.0028 + 0.000028] \times 2$
 $\text{Composite rate} = 0.012828 \times 2$
 $\text{Composite rate} = 0.025656$
 $\text{Composite rate} = 0.0257$ (rounded)
 $\text{Composite rate} = 2.57\%$ (rounded)